

REPORT OF EXAMINATION  
OF THE  
BPG HOME WARRANTY COMPANY  
AS OF  
DECEMBER 31, 2010

Filed August 30, 2011

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Los Angeles, California  
June 30, 2011

Honorable Dave Jones  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**BPG HOME WARRANTY COMPANY**

(hereinafter also referred to as the Company) at its statutory home office located at 1405 North San Fernando Boulevard, Burbank, California 91504.

**SCOPE OF EXAMINATION**

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; statutory deposits; and sales and advertising.

#### SUBSEQUENT EVENTS

On March 25, 2011, the Company paid its parent, Buyers Protection Group, Inc., an ordinary cash dividend of \$750,000. The California Department of Insurance approved this transaction in March 2011.

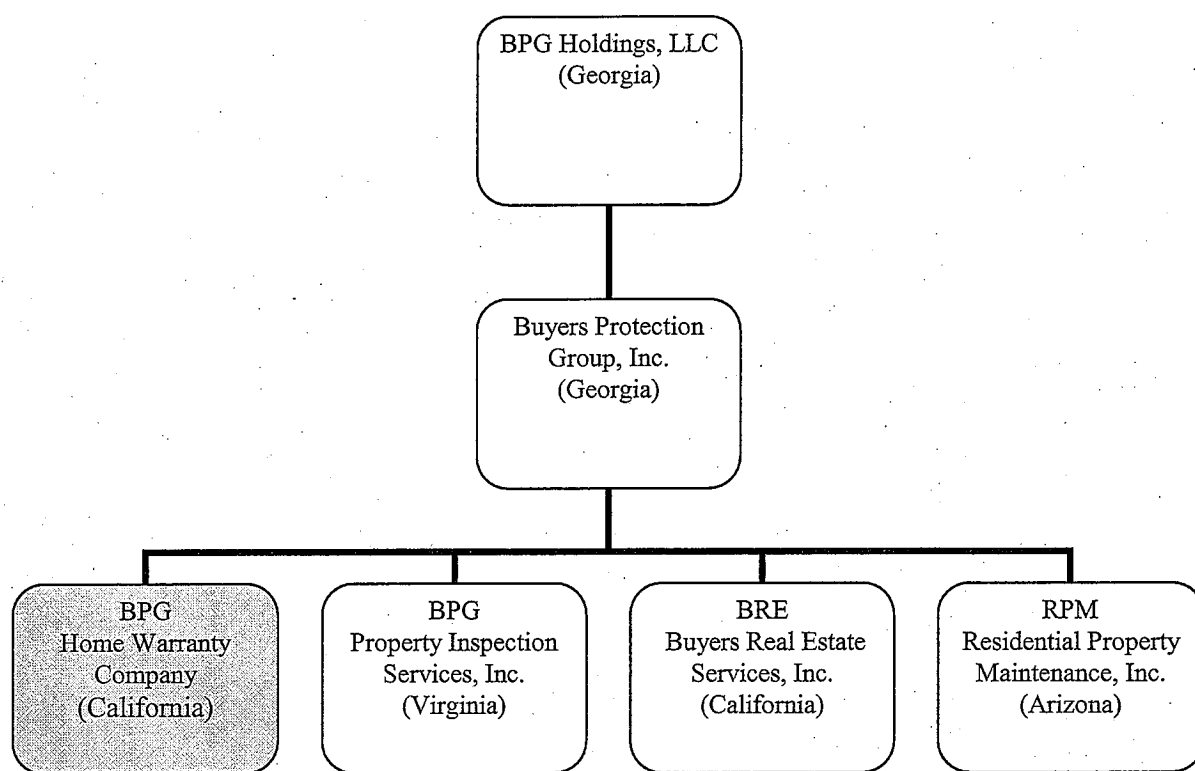
#### COMPANY HISTORY

The Company was formerly named LandAmerica Home Warranty Company, a subsidiary of LandAmerica Financial Group, Inc. On November 30, 2009, Buyers Protection Group, Inc., a wholly owned subsidiary of BPG Holdings, LLC, acquired 100% of the outstanding capital stock of Land America Home Warranty Company. In conjunction with the purchase, the Company's name was changed to BPG Home Warranty Company.

During 2007 and 2008, the Company paid its then parent, LandAmerica Financial Group, Inc., extraordinary cash dividends of \$2.3 million and \$1.2 million, respectively. The payments of both dividends were approved by the California Department of Insurance.

#### MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. BPG Holdings, LLC is a holding company incorporated in the State of Georgia. The following chart depicts the interrelationship of the Company within the holding company system (all ownership is 100%):



Members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2010:

#### Directors

##### Name and Residence

Ronald Clark  
Little Rock, Arkansas

Robert Covington  
Little Rock, Arkansas

Revell L. Fraser  
Alpharetta, Georgia

##### Principal Business Affiliation

Treasurer  
BPG Home Warranty Company

Secretary  
BPG Home Warranty Company

President  
BPG Home Warranty Company

### Principal Officers

<u>Name</u>	<u>Title</u>
Revell L. Fraser	President
Robert Covington	Secretary
Ronald Clark	Treasurer
David F. Gadecki	Chief Financial Officer and Assistant Secretary
Verne Ernst	Chief Information Officer
James Sullivan	Vice President - Sales

### Management Agreements

Tax Allocation Agreement: Beginning in 2009, the Company was included in the consolidated federal income tax return of its parent, Buyers Protection Group, Inc. (BPG). However, the Company does not have a written tax allocation agreement in place with BPG. It is recommended that the Company execute a written tax allocation agreement with BPG and submit the agreement to the California Department of Insurance (CDI) for approval as required by California Insurance Code Section (CIC) Section 1215.5(b)(4).

Cost Allocation Agreement: The Company and various affiliates share office expense and many other administrative and support services. Allocation of the costs is determined based on various methods depending on the nature of the expense. However, the Company does not have a cost allocation agreement in place. It is recommended that the Company finalize its cost allocation agreement with its affiliates with a written agreement and submit the agreement to the CDI for approval as required by CIC Section 1215.5(b)(4).

### CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the

board minutes did not disclose that the board was informed of the receipt of the prior report of examination in the form first prepared by the examiners, or in the form as finally settled and officially filed, and that such actions were not officially entered into the board minutes as required by CIC 735. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

### TERRITORY AND PLAN OF OPERATION

The Company issues home protection contracts to owners of single-family homes, multiple-unit buildings and mobile homes. Most single-family and multiple-unit contracts are written for a twelve-month period. Mobile home contracts are written on a six-month basis.

As of December 31, 2010, the Company was licensed to transact home protection business in the following 40 states:

Alaska	Illinois	Missouri	Rhode Island
Arizona	Indiana	Nebraska	South Carolina
Arkansas	Iowa	Nevada	South Dakota
California	Kansas	New Jersey	Tennessee
Colorado	Louisiana	North Carolina	Texas
Connecticut	Maine	North Dakota	Utah
Delaware	Maryland	Ohio	Virginia
Florida	Michigan	Oklahoma	Washington
Georgia	Minnesota	Oregon	West Virginia
Idaho	Mississippi	Pennsylvania	Wisconsin

In 2010 home protection fees written were \$15.2 million, of which \$8.07 million (53%) were written in California, \$3.9 million (26%) in Texas, and \$3.2 million (21%) were written in various other states.

The Company is obligated to repair or replace covered systems and appliances which become inoperable due to normal wear and tear during the term of the contract. Depending on the options selected, the following systems and components may be covered under the basic contract: plumbing,

electrical, heating and cooling systems, water heaters, washer/dryer, built-in kitchen appliance, refrigerators, well pumps systems, and swimming pools. Contracts do not cover structural defects, underground or inaccessible plumbing and electrical systems.

#### REINSURANCE

The Company did not assume or cede any reinsurance during the examination period.

#### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Contract Holders from December 31, 2006  
through December 31, 2010



Statement of Financial Condition  
as of December 31, 2010

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash, cash equivalents, and short-term investments	\$ 15,780,234	\$ 15,780,234	(1)
Investment income due and accrued	88,712	88,712	
Prepaid claims expenses	411,785	411,785	
Other assets	<u>740,502</u>	<u>740,502</u>	
Total assets	<u>\$ 17,021,232</u>	<u>\$ 17,021,232</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted and unpaid or in process of adjusting		\$ 550,000	(2)
Claims service expenses		399,218	
Other expenses		266,146	
Taxes, licenses and fees		289,411	
Federal income taxes		(17,048)	
Unearned home protection contract fees		6,446,143	
All other liabilities			
Other		176,599	
Accrued compensation		136,600	
Escheat funds		<u>10,546</u>	
Total liabilities		8,257,616	
Common capital stock	\$ 20,400		
Gross paid-in and contributed surplus	6,515,521		
Unassigned funds (surplus)	<u>2,227,695</u>		
Surplus as regards contract holders		<u>8,763,616</u>	
Total liabilities, surplus and other funds		<u>\$ 17,021,232</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2010

Statement of Income

Underwriting Income

Home protection contract fees earned \$ 16,154,676

Deductions:

Claim incurred	\$	7,999,020
Claims service expenses incurred		2,875,331
Other underwriting expenses incurred		4,793,656
Aggregate write-ins for other than underwriting deductions		<u>134,501</u>

Total underwriting deductions 15,802,508

Net underwriting gain 352,168

Investment Income

Net investment income earned	\$	245,071
Net realized capital gain		<u>155,452</u>

Net investment gain 400,523

Net income \$ 752,691

Capital and Surplus Account

Surplus as regards contract holders,  
December 31, 2009 \$ 8,012,721

Net income	\$	752,691
Change in nonadmitted assets		1,758,238
Amortization of intangibles		<u>(1,760,035)</u>

Change in surplus as regards contract holders for the year 750,895

Surplus as regards contract holders,  
December 31, 2010 \$ 8,763,616

Reconciliation of Surplus as Regards Contract Holders  
from December 31, 2006 through December 31, 2010

Surplus as regards contract holders,  
 December 31, 2006 per Examination \$ 13,285,442

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 1,194,743	
Net unrealized capital gains	9,866,119		
Change in nonadmitted assets	30,337		
Dividends to stockholders		3,500,000	
Other		559,906	
Goodwill write-off		7,003,135	
Amortization of intangibles		<u>2,160,490</u>	
Total gains and losses	<u>\$ 9,896,456</u>	<u>\$ 14,418,274</u>	
Net decrease in surplus as regards contract holders			<u>(4,521,818)</u>

Surplus as regards contract holders,  
 December 31, 2010, per Examination \$ 8,763,616

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1). Cash, Cash Equivalents and Short-term Investments

The Company included its investment in bonds in the cash, cash equivalent, and short-term investments account line item in the Annual Statement. It is recommended that the Company report its investment in bonds on the appropriate line item in the Annual Statement.

### (2). Claims Adjusted and Unpaid or in the Process of Adjustment

Based on a review of subsequent claim payments, the Company's estimation of \$550,000 for its unpaid claim as of December 31, 2010 was determined to be reasonably stated and has been accepted for purposes of this examination report.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control - Management Agreement – Tax Allocation Agreement (Page 4): It is recommended that the Company execute a written income tax allocation agreement with Buyers Protection Group, Inc., and submit the agreement to the California Department of Insurance (CDI) for approval as required by California Insurance Code (CIC) Section 1215.5(b)(4).

Management and Control - Management Agreements – Cost Allocation Agreement (Page 4): It is recommended that the Company formalize its cost allocation agreement with its affiliates with a written agreement and submit the agreement to the CDI for prior approval as required by CIC Section 1215.5(b)(4).

Corporate Records (Page 4): It is recommended that the Company implement procedures in its board meetings to ensure future compliance with CIC Sections 735.

### Previous Report of Examination

Management and Control – Management Agreements (Page 4): It was recommended that the Company submit the Consolidated Federal Income Tax Liability Allocation and Payment Agreement to the CDI for approval and report it in its Form B filing to comply with CIC Section 1215.4(b)(3)(H). The Company has complied with this recommendation.

Management and Control – Holding Company Transaction (Page 4): It was recommended that the Company enter into a written agreement with LandAmerica to address the services provided and submit the agreement to the CDI for approval in accordance with the requirements of CIC Section 1215.5. In 2009, the Company was acquired by Buyer Protection Group, Inc.; therefore this comment is no longer applicable.

Corporate Records (page 5): It was recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201. As of December 31, 2010, the Company was not in compliance with CIC Section 1200 and 1201 and was recommended to implement procedures in its board meetings to ensure compliance with CIC Sections 1200 and 1201.

Accounts and Records (Page 6): It was recommended that the Company maintain documentation to support all accounting adjustments. The documentation should be prepared in sufficient detail to allow for a full and complete audit trail. The Company has complied with this recommendation.

Financial Statements – Cash on Deposit (Page 11): It was recommended the Company report its investment in bonds in the appropriate line in the Annual Statement. As of December 31, 2010, the Company was not in compliance and the examiner again recommended that the Company report its investment in bonds on the appropriate line in the Annual Statement.

It was recommended that the Company enter into a custodial agreement with Union Bank and submit the agreement to the CDI for approval to comply with CIC Section 1104.9(d). It was also recommended that the Company transfer its investments held at Wachovia Securities to a qualified

custodian to comply with CIC Section 1104.9. The Company has complied with these recommendations.

Financial Statements Items – Home Protection Contract Fees Receivable (Page 11): It was recommended that the Company record its home protection contract fees receivable according to Statements of Statutory Accounting Principles (SSAP) No. 6. The Company has complied with this recommendation.

Financial Statement Items – All Other Liabilities (Page 12): It was recommended that the Company record escheat liabilities properly. It was recommended that the Company comply with California Code of Regulations Title 10 and implement procedures to ensure future compliance. As of December 31, 2010, the Company was not in compliance. It is again recommended that the Company establish written escheat procedures and make unclaimed property filings to the State Controller's Office.

### ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Cuauhtémoc Beltran, CFE  
Examiner-In-Charge  
Senior Insurance Examiner (Specialist)  
Department of Insurance  
State of California